

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON FISHERIES

February 1, 2022

11:03 a.m.

MEMBERS PRESENT

Representative Geran Tarr, Chair
Representative Jonathan Kreiss-Tomkins
Representative Andi Story
Representative Dan Ortiz
Representative Sarah Vance
Representative Kevin McCabe

MEMBERS ABSENT

Representative Louise Stutes, Vice Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 82

"An Act relating to surface use restrictions for oil and gas leases; relating to gas leases in Kachemak Bay; relating to the renewable energy grant fund; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 82

SHORT TITLE: GAS LEASES; RENEWABLE ENERGY GRANT FUND

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/18/21	(H)	READ THE FIRST TIME - REFERRALS
02/18/21	(H)	RES, FSH
03/01/21	(H)	RES REFERRAL MOVED TO AFTER FSH
03/01/21	(H)	BILL REPRINTED
04/06/21	(H)	FSH AT 10:00 AM GRUENBERG 120
04/06/21	(H)	Heard & Held
04/06/21	(H)	MINUTE(FSH)
05/04/21	(H)	FSH AT 10:00 AM GRUENBERG 120
05/04/21	(H)	Heard & Held
05/04/21	(H)	MINUTE(FSH)
05/13/21	(H)	FSH AT 10:00 AM GRUENBERG 120

05/13/21 (H) <Bill Hearing Canceled>
02/01/22 (H) FSH AT 11:00 AM GRUENBERG 120

WITNESS REGISTER

AARON O'QUINN, Leasing Manager
Division of Oil and Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation during the hearing on HB 82.

HALEY PAINE, Deputy Director
Division of Oil and Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 82.

DAN SEAMOUNT, Commissioner
Alaska Oil and Gas Conservation Commission
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 82.

ACTION NARRATIVE

[11:03:01 AM](#)

CHAIR GERAN TARR called the House Special Committee on Fisheries meeting to order at 11:03 a.m. Representatives McCabe, Vance, Story, Kreiss-Tomkins, Ortiz, and Tarr were present at the call to order.

HB 82-GAS LEASES; RENEWABLE ENERGY GRANT FUND

[11:03:49 AM](#)

CHAIR TARR announced that the only order of business would be HOUSE BILL NO. 82, "An Act relating to surface use restrictions for oil and gas leases; relating to gas leases in Kachemak Bay; relating to the renewable energy grant fund; and providing for an effective date."

[11:05:04 AM](#)

AARON O'QUINN, Leasing Manager, Division of Oil and Gas, Department of Natural Resources, provided a PowerPoint presentation entitled, "HB 82 Supporting Document - DNR Presentation - Gas Leases; Renewable Energy Grant Fund 2.1.22.pdf," [included in the committee packet] during the hearing on HB 82. He noted that the main purpose of the bill would allow for the division to lease and capture revenue from state-owned resources. He shared that there exists a current statute that prevents oil and gas leasing in the subsurface of Katchemak Bay and the passage of HB 82 would allow for a competitive lease process. He added that there would be no change permitted on the surface of the Bay, and that access to the petroleum would be from off-premises. He stated that that an operator may drill on leased land sharing a border with unleased land, the state's resources could be drained of resources without payment to the state unless an administrative hearing through the Alaska Oil and Gas Conservation Commission (AOGCC) takes place, which may take several years before completion. He added that, should HB 82 pass, no surface impacts such as [drill] rigs, drill ships, pipelines, and no seismic drilling would occur in the Bay.

[11:08:53 AM](#)

MR. O'QUINN referred to slide 4 which depicts the affected area and the potential allowable well bore. He added that there exist very strict protections of the areas where surface activities are currently allowed, and that the state conducts a best interest finding every 10 years that includes public testimony and scientific research to determine the state's best interest in leasing land and in which mitigation measures are adopted. He explained that the findings restrict drilling activity in buffer zones such as anadromous fish streams, among other environmental protections. He added that surface operations, such as pipelines for natural gas and oil and [construction of] roads are subject to a permitting and bonding process. He added that hydrocarbon resources exist without respect to boundaries established by the government and HB 82 would allow the department to lease lands to operators, under contractual agreement, to determine how the state should receive revenue from that extraction based on a percentage basis.

[11:13:32 AM](#)

MR. O'Quinn explained that there exists an additional complication with the AOGCC process that, when the Department is not under a lease agreement with an operator, it may not enforce

mitigation measures that would exist under a lease agreement and any measures are instead subject to AOGCC administrative ruling. He suggested that HB 82 would bring certainty to both the state and to operators [in a lease agreement.]

11:14:39 AM

REPRESENTATIVE ORTIZ stated that new technology allowing operators to drill diagonally and asked how long the technology had been in existence and asked about any known problems that exist, such as leaks.

11:15:16 AM

MR. O'Quinn estimated that the drilling technology had been in existence for 20 to 30 years. He stated that an operator on the North Slope had a [horizontal] bore length of approximately 15 miles long. He added that AOGCC would regulate the drilling process and the department would oversee the leasing process. He further explained that the drill bore is encased in concrete and operates in much the same way as a vertical well bore. He added that he was not aware of any problems specifically associated with horizontal drilling.

11:16:30 AM

REPRESENTATIVE ORTIZ asked, should HB 82 not pass, whether operators would still be able to access resources in areas such as in Katchemak Bay without paying royalties to the state.

MR. O'Quinn answered that, without a lease, an operator may not place its well bore on to that specific arial land, but they may approach the boundary, which creates a low pressure drain in which hydrocarbons in the higher-pressure area migrate to the lower pressure area. He added that the department would assert property rights subject to the AOGCC process under AS 31.05.100. He added that operators are allowed to keep oil that runs through their well, even when the oil does not belong to the operator. He noted the doctrine of the rule of capture had been updated with language such as the doctrine of correlative rights in which states have enacted legislation to protect operators and allow for fair sharing of resources. He stated that HB 82 would contractually mandate how those royalties would be paid, instead of being subject to the AOGCC process. He added that operators are inclined to invest capital with the certainty of a contract rather than the investment being subject to the AOGCC administrative process and that, in some cases, operators may

choose to place the bore in a more optimal position, should HB 82 pass.

[11:20:06 AM](#)

REPRESENTATIVE ORTIZ stated that Mr. O'Quinn had referenced oil and gas interchangeably and whether the discussion of Katchemak Bay pertained to either oil or to natural gas.

[11:20:20 AM](#)

MR. O'Quinn referred to slide 9 of the presentation entitled, "HB 82 Supporting Document - DNR Presentation - Gas Leases; Renewable Energy Grant Fund 2.1.22.pdf" [included in the committee packet] which depicted the area adjacent to the Seaview unit, in the vicinity of Anchor Point, and were primarily wells for natural gas utility extraction.

MR. O'Quinn stated that the passage of HB 82 would allow for contracts to be consolidated and not subject to the AOGCC process.

[11:23:16 AM](#)

REPRESENTATIVE KREISS-TOMKINS asked if HB 82 should pass whether any oil and gas development would be affected outside of the Cook Inlet basin.

MR. O'QUINN answered that none exist to his knowledge and referred to the blue area depicted on slide 9 of the presentation and that HB 82 would allow for subsurface leases in that area, and it would also allow for leases on other surface lands that had been closed [to drilling.] He noted that oil and gas provinces, such as on the North Slope, are well developed and not in an area that would be affected with the passage of HB 82.

[11:24:42 AM](#)

REPRESENTATIVE KREISS-TOMKINS asked, in Section 1 of the bill, whether a new statewide default would be enacted regardless of the immediate need outside of the Cook Inlet basin.

MR. O'QUINN affirmed Representative Kreiss-Tomkins statement and added that in a case when there exists surface use restriction, ambiguity may exist regarding the subsurface concerned.

REPRESENTATIVE KREISS-TOMKINS asked, should HB 82 pass, what would be the financial magnitude of anticipated royalties collected.

MR. QUINN answered that, at present, it is unknown what the size of the resource would be, nor the price known that an operator might get, and so was unable to accurately predict the amount of anticipated royalties to the state. He referred to the fiscal note associated with the bill as a possible source of additional information and deferred to other department staff to address Representative Kreiss-Tomkins' question.

[11:26:51 AM](#)

HALEY PAINE, Deputy Director, Division of Oil and Gas, Department of Natural Resources, answered that there was no mapped geologic structure to depict a reservoir that may or may not exist. She added that, since the lands had not been available for lease, the department had not evaluated what the royalty rate would be [under a new lease] and that other land in the Cook Inlet basin were at a 12 and a half percent royalty rate; however, that may not be reflective of the rate on new leases. She noted that other economic factors existed such as rental fees and bonus bids at the time of lease. She stated that, despite the lack of exploration on the lands concerned, the department would expect economic benefit to the state. She referred to a previously stated question by Representative Ortiz regarding the differentiation between oil and gas, that HB 82 would pertain to natural gas leases on restricted surface areas and would not pertain to oil.

[11:28:58 AM](#)

REPRESENTATIVE KREISS-TOMKINS offered that some scope of the economic benefit could be ascertained since there existed interest in opening the subsurface areas to lease, and that the department could follow up with the committee to give a high-level estimate of the anticipated economic benefit.

MR. O'QUINN agreed to seek additional information and provide it to the committee. He added that the passage of HB 82 would open interest from operators and that utility extraction would contribute indirect economic benefits including energy security in the area.

[11:30:38 AM](#)

REPRESENTATIVE MCCABE shared his experience with the horizontal drilling technology in other states that had resulted in protection of areas that may not have been closed. He noted that his research of the technology had revealed no increased risk and was a very safe technology. He suggested that other areas in Alaska may benefit from the horizontal drilling technology for increased environmental protection balanced with energy security. He asked how far down and how long the drill bore would be in the area depicted in the presentation.

MR. O'QUINN stated that, while he did not have specifics on the area depicted in the presentation there did exist an analogous drill rig north of the area, known as the Cosmopolitan Unit, with the same horizontal drilling technology. He stated that area was accessed entirely onshore. He noted on the map on slide 9 of the presentation depicted the Cosmopolitan project in red dots on the map. He cautioned that some of the requested information may be proprietary or contain trade secrets but noted that the operations were being executed safely.

REPRESENTATIVE MCCABE stated that there should be a public process to reveal the horizon [parameters] of any proposed drilling project and asked the department to confirm.

MR. O'QUINN stated that the public process pertaining to the technical side of the permitting process for matters such as how much flow and where operators may open wells was overseen by the AOGCC, and that the department's role was to oversee the leasing aspect of the exploration and drilling.

[11:37:25 AM](#)

DAN SEAMOUNT, Commissioner, Alaska Oil and Gas Conservation Commission, Department of Commerce, Community & Economic Development, summarized the permitting process, and explained that other agencies are involved in conducting the public process, and that the AOGCC received a permit application and its role is to ensure that well bores are constructed so that underground sources of drinking water are not negatively impacted and correlative rights are ensured. He added that the AOGCC ensures that production is enhanced to result in no waste of the resource.

[11:39:16 AM](#)

REPRESENTATIVE ORTIZ asked, should HB 82 pass, whether the ensuing resource extraction would serve the utility needs of the Cook Inlet area, and whether there would be negative impacts should the bill not pass, such as the area running out of [natural] gas.

MR. O'QUINN noted that production from December 2020 to December 2021 had fallen by almost 10 percent. He noted that the industry has undertaken mitigation measures including fuel underground storage and increased production during the summer months to avoid a shortage situation like the one that had occurred in the 2010s.

MS. PAINE echoed Mr. O'Quinn's testimony that addressed the decline in production and mitigation measures in place to meet customer needs. She stated that there existed a study that had been conducted in 2018 that investigated the gas supply for Cook Inlet and offered to provide a link to the study for the committee.

[11:42:29 AM](#)

REPRESENTATIVE VANCE expressed that the bill has direct impacts to her district, and constituents had expressed concerns about the potential for future drilling. She stated that Katchemak Bay had been closed to drilling 30 years prior. She expressed concern that, in the absence of a fiscal analysis of the economic benefit to the state, other justification for the passage of HB 82 was needed.

MR. O'QUINN stated that there exists a process for the state to protect its correlative rights by integrating the land through a "compulsory unit" procedure through the AOGCC, but that process is not commonly used. He stated that there exists a local market demand for the gas in the area, including to the Homer Electric Association. He stated that allowing the producers to enter into an agreement [should HB 82 pass] would provide increased certainty for the producers and encourage capital investment. He stated that it was understood by the division that the Katchemak Bay area is a special and important area. He noted that there is a provision in the bill to report the revenues from the area specifically to the legislature each year so that the legislature may appropriate that revenue for renewable energy development, thus moving the state away from reliance on hydrocarbon fuels. He stated that, should HB 82 not pass, there would persist uncertainty for the state and producers and the general public. He proposed that HB 82 would

provide increased public transparency. He stated that, following the public process that will have taken place should the bill pass, a lease contract would be entered into. He restated that the compulsory unitization process was not optimal and would lead to decreased public process and public engagement.

11:48:49 AM

REPRESENTATIVE VANCE recalled previous hearings in which, should HB 82 not pass, the state would be obligated to undertake the compulsory unitization process and asked whether her understanding was correct.

MR. O'QUINN stated that the division, as the keeper of the right to the state's resources, and it would be obligated to go through the [compulsory unitization] process with the AOGCC.

REPRESENTATIVE VANCE asked who the recipient of the proceeds for the gas was currently.

MR. QUINN answered that the gas is not currently being extracted from Katchemak Bay. He noted that Seaview 8 and Seaview 9 sites are being drilled and consist of a combination of public and private lands, and that the proceeds from those wells are divided among the landowners. He stated that exploration is anticipated following the passage of HB 82 to determine where the resource exists and further define the land ownership to ensure that revenue is given to the appropriate landowner.

11:50:31 AM

CHAIR TARR noted that there had been a public process that designated Katchemak Bay as a critical habitat area. She asked for the department's response to claims made by members of the public that the public process designating the area as critical habitat and limiting oil and gas development was being ignored.

MR. O'QUINN offered that the closure of the area had resulted from an oil rig that became stuck. He stated that public alarm was raised, and a law passed to close the area to drilling, but that there was negligible environmental impact from that incident. He stated that the department was not seeking to materially change the status quo with the passage of HB 82, and that drilling was taking place adjacent to the area in Anchor Point. He stated that the passage of the bill would allow for the contract to extract the subsurface resource in the area

following a best interest finding process. He stated that other Cook Inlet extraction by producers was currently subject to very strict mitigation measures.

[11:54:14 AM](#)

REPRESENTATIVE STORY asked, should HB 82 not pass, for the department to explain the current status-quo of the drilling that is already taking place. She asked whether the failure to pass HB 82 would result in a lost opportunity for the state.

MR. O'QUINN referred again to the map on slide 9 and explained that the Seaview areas were currently being drilled. He noted that the red dots on the map were to wells that had been drilled and were producing from both state and private lands. He stated that the passage of the bill would likely result in another red dot within the green, or possibly the blue, areas on the map. He added that when a well is initially fully drilled, the rig is removed and the well itself is much less disruptive once gas is flowing either on its own or with the aid of a compressor. He stated that noise and other mitigation permit standards exist.

[11:57:43 AM](#)

REPRESENTATIVE MCCABE stated his understanding that HB 82 contemplates that, when the blue hatched area of the map was made off limits to drilling, asked whether the concern for the area was limited to activities on the surface of the area, such as spills or leakage. He asked how deep the designation under the blue hatched area was off limits and how far down a well would need to be drilled to reach the reserves under the area to maintain the protection of the area.

[11:58:59 AM](#)

REPRESENTATIVE VANCE stated that the individuals who advocated and achieved protection of Katchemak Bay were the same individuals who passionately oppose even horizontal drilling in the area and they had informed her of their concern. She allowed that the waters are apparently not impacted [should HB 82 pass] but that there existed some public sentiment in which they did not believe that there would be zero impact. She noted that within the last couple of years there had been a gas leak that had been characterized as minor but that it had occurred, nonetheless. She shared her constituent's opposition to the passage of the bill.

12:00:49 PM

CHAIR TARR stated that HB 82 was heard and held.

12:01:27 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Fisheries meeting was adjourned at 12:01 p.m.